

Public Management Review



ISSN: 1471-9037 (Print) 1471-9045 (Online) Journal homepage: http://www.tandfonline.com/loi/rpxm20

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To cite this article: Walter Kickert & Tiina Randma-Liiv (2017) The politics of cutback management in thirteen European countries: statistical evidence on causes and effects, Public Management Review, 19:2, 175-193, DOI: 10.1080/14719037.2016.1148193

To link to this article: http://dx.doi.org/10.1080/14719037.2016.1148193

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The politics of cutback management in thirteen European countries: statistical evidence on causes and effects

Walter Kickert^a and Tiina Randma-Liiv^b

^aDepartment of Public Administration, Erasmus University Rotterdam, Rotterdam, The Netherlands; ^bRagnar Nurske School of Innovation and Governance, Tallinn University of Technology, Tallinn, Estonia

ABSTRACT

The politics of fiscal consolidation in thirteen European countries are statistically analysed. Based on the political economy literature, political factors are identified that explain for the consolidation. Variables are selected representing strength of government and political orientation, and fiscal consolidation is distinguished into spending cuts and cuts in administration. The statistical analysis of political explanations for cutbacks hardly yields significant results and nor does the analysis of fiscal and economic effects of consolidation. The analysis of political effects of consolidation does lead to significant results. Some earlier political economic findings are not supported for our sample of thirteen European countries.

KEYWORDS Fiscal consolidation; cutback management; politics and government; strength of government; political orientation; fiscal and economic effects; electoral effects; European countries; statistical analysis

Introduction

How did thirteen large and smaller countries in Western, Southern and Eastern Europe – Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, the Netherlands, Slovenia, Spain and the United Kingdom – manage the fiscal crisis, that is, how did they manage to cut back their excessive budget deficits and debt accumulation in the aftermath of the global financial crisis and great economic recession?

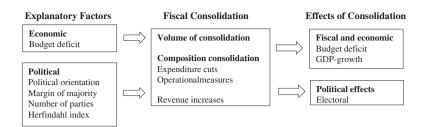
While the fiscal crisis and consolidation have largely been studied from an economic perspective (Posner and Blöndal 2012), our primary interest is in the political aspects of the national governments' budget consolidations. Earlier we have analysed 'the politics of fiscal consolidation in Europe' by means of qualitative country case-studies in the thirteen European countries (Kickert, Randma-Liiv, and Savi 2013). In Kickert and Randma-Liiv (2015), a first attempt was made to supplement the wealth of qualitative data from the in-depth country case-studies with quantitative statistical analysis. In this article, we fully concentrate on the quantitative statistics of the politics of fiscal consolidation and elaborate that earlier attempt with political economic insights. Let us first briefly explain the earlier study.

In the seventh work package of the European Union (EU)-subsidized research project 'Coordination for Cohesion in the Public Sector of the Future' (COCOPS), researchers in European countries provided in-depth country case-studies on the 'political effort' of governments to manage the cutbacks (Kickert, Randma-Liiv, and Savi 2013). That 'political effort' was interpreted in terms of the governments' cutback decision-making. In the cutback management literature (Raudla, Savi, and Randma-Liiv 2015), the most basic distinction was the one between across-theboard cuts and targeted cuts. Across-the-board measures refer to cuts in equal amounts or percentages, while targeted cuts mean that some face a larger cut than others. This dichotomy between rational-comprehensive and incremental decisionmaking (Lindblom 1959) has been further elaborated by Peters, Pierre, and Randma-Liiv (2011), and it was used by us to distinguish three decision-making variables: 'size of cutback decisions', 'speed of cutback decisions' and 'across-the-board versus targeted decisions'. These were measured in the COCOPS country case-studies.

The next step was to address the possible political explanations of the cutback decision-making. Of course, the cutback decisions were primarily related to the state of the public finances in a country. However, they also depended on the type of politics and government? Did cutback decisions depend on governments being a single-party one or a multi-party coalition? Did it matter whether governments had a grand parliamentary majority or only a minority? Did they depend on the governments being right-wing, centre or left-wing? The in-depth country case-studies resulted in a wealth of qualitative data. We wanted to complement that with a quantitative statistical analysis. That attempt (Kickert and Randma-Liiv 2015) largely failed due to limitations of the thirteen country-data, such as low sample totals and indistinctive variables. The mainly qualitative variables hardly allowed for relevant quantitative statistics. An alternative quantitative approach had to be found elsewhere, for which we now turn our attention to the political economy literature on fiscal deficits.

In this article, we derive an analytical framework for analysing the influence of politics and government on cutback management (economists rather use the term 'fiscal consolidation') from the political economic literature. Based on the political economic insights into fiscal deficits and its findings about the influence of politics and government on budget stabilization (Alesina, Ardagna, and Trebbi 2006; Brender and Drazen 2008, Eslava 2011; Hallerberg, Strauch, and Von Hagen 2009; Persson and Tabelini 2003), variables are selected representing the 'strength of government' and the 'political orientation of government'. Based on the political economic findings about the effects of the composition of fiscal consolidation on budget deficit reduction (Alesina and Ardagna 2010; Alesina 2012), consolidation is distinguished into 'spending cuts' and 'cuts in administration'. Subsequently, the political economic findings on 'electoral effects' of governments' fiscal tightness, that is, whether voters punish or reward fiscally tight incumbents at general elections (Drazen 2001; Eslava 2011), are reviewed.

Our analysis of the political aspects of fiscal consolidation is twofold. First, we focus on the explanatory power of political factors in explaining fiscal consolidation. Second, we focus on the political-electoral effects of fiscal consolidation. Did governments loose the elections due to fiscal cutback measures? Were early elections called due to cutbacks? Did coalitions fall apart due to cutbacks? The core variable is the (size and composition of) fiscal consolidation, for which we rely on the data



Scheme 1. Analytical Framework.

presented in the Organisation for Economic Co-operation and Development (OECD 2012) cross-country survey.

So the first research question is:

What political factors explain for the size and composition of fiscal consolidation? And the second research question is:

What are the political effects of fiscal consolidation?

As mentioned before, we are primarily interested in the political aspects of fiscal consolidation. It is, however, evident that economic factors play a predominant role. After all, the state of the public finances prior to the fiscal crisis is the primary explanatory factor for the fiscal consolidation efforts that governments undertook, and likewise is the primary intended effect of fiscal consolidation – the reduction of budget deficit and debt accumulation and hopefully also economic recovery. So besides the political factors, we also pay due attention to these economic factors.

The analytical framework of both the 'politics' and 'economics' of fiscal consolidation is outlined in Scheme 1.

Analytical framework: political economy of fiscal consolidation

As mentioned in the introduction, our attempt at direct statistical analysis of the thirteen country case-studies (Kickert and Randma-Liiv 2015) failed due to methodological limitations of the data. For a statistical analysis, we therefore looked for other well-defined and quantitatively measurable variables. These can be found in the political economy literature; for example, the variables 'strength of government' and its 'political orientation'. In this section, we review the political economic literature and see what variables could possibly be utilized. In the next section, we specify the empirical sources of the selected variables and present the data.

Political orientation of government

Political decisions of governments on fiscal policy can be related to the political orientation of governments (Cusack 1999, 2001; Eslava 2011). Simply stated, rightwing governments tend to run lower deficits that left-wing ones. Conservative and liberal parties tend to advocate more and quicker balancing of the books than socialists, social democrats or progressive liberals. Cusack (1999) mentioned several reasons why this 'conventional wisdom' might be questioned. There is little empirical evidence. Some suggest that it is the other way around. Still others suggest that partisan politics and fiscal policy is rather dependent on economic circumstances.

Left-wing parties will follow a counter-cyclical policy of fiscal stimulus when the economy recedes. Right-wing parties follow a pro-cyclical policy of fiscal tightness in hard economic times. Another counter-argument is that in small internationally open economies it is rather the international world markets than domestic fiscal policy that affects the domestic economy, whatever the political orientation of governments. Evidence can be found that partisan politics and fiscal policy is contingent on economic conditions (Cusack 1999), and that left-wing governments adopt counter-cyclical fiscal policies while right-wing ones chose pro-cyclical policies (Cusack 2001). But empirical support for the 'partisan cycle' hypothesis of Hibbs (1977), that preferences of left-wing politicians for large governments that stimulate economic activity are expected to translate into fiscal deficits when they are in power, while the opposite can be expected when right-wing politicians are in power, is weak (Eslava 2011). A recent study of Armingeon (2012) found evidence that the political colour of governments does not matter much in fiscal responses to the current economic crisis.

Remark that our sample consists of a mere thirteen countries and that in our case fiscal policies were adopted against the background of the worldwide banking crisis and economic recession.

Strength of government

In majoritarian political systems one single party wins a parliamentary majority at the general elections and forms a single-party government. In multi-party consensual systems no single party obtains a parliamentary majority. Parliamentary decisions are reached by compromises between a number of parties (Lijphart 1977, 1984). A singleparty government allegedly is better capable to take swift and drastic decisions than a multi-party coalition government. Furthermore, a sub-distinction can be made within governments between a grand (more than two-thirds) parliamentary majority, a simple (minimal-winning, more than half) majority and a parliamentary minority (less than half). Minority coalition governments tend to face major problems in taking hard and unpopular decisions because they have to reach a compromise not only between coalition parties but also with opposition parties.

In the literature on political economy of fiscal deficits and consolidation (Eslava 2011; Price 2010) a number of arguments have been made and empirically tested about the influence of types of government upon the stabilization of large budget deficits. The basic argument is that when a government is 'strong', the likelihood of budget deficit reductions becomes higher. Presidential systems tend to lead to better spending and deficit stabilization than parliamentary systems, and proportional election systems (consensual democracies with coalition governments) tend to generate higher spending and higher deficits than majoritarian ones (single-party governments) (Persson and Tabelini 2003; Alesina, Ardagna, and Trebbi 2006). Furthermore, the larger the majority of the ruling party (or parties), the 'stronger' the government is in overruling opposition parties. The margin of parliamentary majority (minority, minimal winning, grand) is an indicator of 'strength'. Empirical evidence from OECD countries showed that single-party governments run lower budget deficits than coalition governments (Alesina, Ardagna, and Trebbi 2006; Armingeon 2012).

Furthermore, the more different parties have different preferences to spend on different public goods, and the higher the level of polarization between the different parties, the higher the chance that budget deficits will increase (Eslava 2011). The

political economic literature on fiscal rules and institutions (Von Hagen 2006; Hallerberg, Strauch, and Von Hagen 2009) suggests that the number of actors participating in the budgeting process negatively affects the fiscal discipline. This type of fragmentation of government has been proxied by the number of parties represented in the coalition and by the number of spending ministries (Wehner 2010).

Composition of fiscal consolidation: spending cuts versus tax increases

The political economic literature on deficit reduction teaches us that the distinction in fiscal consolidation between tax increases and spending cuts is highly relevant. There is ample evidence that fiscal consolidation based on spending cuts rather than tax increases is more likely to reduce deficits. Moreover, consolidation on the spending side rather than the tax side is less likely to create economic recessions (Alesina and Ardagna 2010). These findings of the OECD countries between 1970 and 2007 have been reconfirmed after the recent economic recession (Alesina 2012; Alesina, Favero, and Giavazzi 2014). Economic policy-makers utilize these findings in the debate how much consolidation is needed, how fast and with which instruments. In a series of OECD Economic Department working papers about these questions (Sutherland, Hoeller, and Merola 2012), it was once again empirically confirmed that spending-driven fiscal adjustments are more likely to reduce deficit and stabilize debt than tax-driven ones (Molnar 2012; Blöchliger, Song, and Sutherland 2012). The OECD (2012) cross-country analysis of fiscal consolidations also stipulated the preference for spending cuts over tax rises. And a paper prepared by Alesina (2010) for a meeting of the EU Ministers of Finance also emphasized the higher effectiveness of spending cuts in deficit and debt stabilization.

Spending-based fiscal adjustments are not only more likely to reduce the deficit and debt than tax-based adjustments, they are also less likely to trigger an economic recession. Based on an examination of European countries, the Heritage Foundation analyst Furth (2014) concluded that deficit reductions by spending cuts are much less harmful to economic growth than tax increases. Spending-based fiscal consolidation can even contribute to economic growth when accompanied by cutbacks in the costs of administration, that is, cuts in public sector size and pay (Alesina, Favero, and Giavazzi 2014).

Fiscal and economic effects of fiscal consolidation

Fiscal consolidation measures are taken to reduce budget deficits and debt accumulation. As mentioned just before, spending cuts are more likely to reduce budget deficits than tax increases. And spending cuts accompanied by reforms, especially cuts in the size and costs of administration, are supposedly even more beneficial. The consolidation measures, imposed by the Troika upon Greece since 2010, are a harsh example of that latter conviction.

The economic effects of fiscal consolidation are politically contested. Left-wing politicians argue that hard consolidation and cutbacks will likely result in worsening the economy, especially when the economy already is in recession. That actually was the case in most Western countries at the time of the fiscal crisis. As mentioned before, there is empirical evidence that spending-based consolidations are less likely to cause economic decline than tax increases, and that cuts in administration also help prevent economic recession.

Political-electoral effects of public spending

In the political economy literature, the subject of opportunistic partisan manipulation of government spending before elections, in order for incumbent politicians to get reelected, has specifically been studied. Following one of the pioneering works (Nordhaus 1975), the subject is called 'political business cycle' and received extensive attention (Drazen 2001). The hypothesis is that partisan policy-makers will determine macro-economic cycles (Hibbs 1977). The argument runs that voters value public spending, that is, economic expansion, but underestimate the costs of the future taxes. Therefore, voters support policy-makers who favour public spending, resulting in deficits, and oust incumbents who are fiscally tight (Eslava 2011: 647). This line of argument has been criticized theoretically and refuted empirically (Alesina, Perotti, and Tavares 1998). Politicians are not merely opportunistic voter-maximizing spenders who ignore social welfare. Voters are not always ignorant of the long-term consequences of budgetary decisions. Empirical studies of OECD countries show that bigger budget transparency leads to lower deficits and debt levels. Many empirical studies of the opportunistic use of budget deficits during election times have been carried out. No empirical evidence was found of pre-electoral fiscal spending in a large sample of countries, developed and less developed economies, parliamentary and presidential systems, proportional and majoritarian election systems (Brender and Drazen 2008, Persson and Tabelini 2003). And the assumption that fiscally conservative incumbents loose elections has been empirically refuted (Alesina, Perotti, and Tavares 1998). In advanced economies and democracies with budget transparency, voters tend to be fiscally conservative. Incumbents that follow a fiscally tight policy of deficit consolidation and spending cuts are not more likely to be ousted at elections than fiscally loose incumbents (Eslava 2011).

Empirical variables, sources and data

After deriving various relevant variables from the political economic literature, in this section we specify which variables are selected, what the empirical sources of the variables are, and we present the data used for the statistical analysis.

Strength of government and political orientation

Three quantitative variables representing the 'strength' of a government are selected from the World Bank database on political institutions (World Bank 2012) (see Table 1): first, the margin of the government's parliamentary majority (less than 0.50 is minority, more than 0.50 is simple (minimal-winning) majority, more than 0.66 is grand majority); second, the number of parties in government; and third, the more sophisticated Herfindahl index of government (the sum of square seats of all parties in government). The Herfindahl extremes are a huge number of very small parties (index 0) versus one single party (index 1). The Herfindahl index measures not only the number of parties but also their parliamentary size, and therefore offers a more refined indicator of 'strength' than the mere number of parties.

Table 1. Government characteristics.

	Government right– centre–left	Government margin majority	Number parties in government	Herfindahl index
Belgium	2	0.64	5	0.184
Estonia	2	0.59	3	0.395
France	1	0.57	1	0.877
Germany	1.5	0.61	3	0.529
Hungary	1	0.68	1	1
Iceland	3	0.53	2	0.515
Ireland	2.5	0.68	2	0.559
Italy	1.5	0.54	3	0.674
Lithuania	1.5	0.56	4	0.385
The Netherlands	1.5	0.46	2	0.435
Slovenia	3	0.48	4	0.512
Spain	3	0.48	1	1
The United Kingdom	1.5	0.55	2	0.734

Source: World Bank (2012) and COCOPS country case-studies.

Furthermore, the political orientation of governments is measured: right-wing is denoted as 1, centre 2, and left-wing 3. A centre-right coalition is denoted as 1.5, and a centre-left one as 2.5. A right-centre-left coalition is denoted as 2. These data are derived from the COCOPS country case-studies (Kickert and Randma-Liiv 2015) (see Table 1).

Volume and composition of consolidation

For the quantitative analysis of fiscal consolidation (see Table 2), we rely upon the data presented in the OECD (2012) survey. The OECD defines fiscal consolidation as concrete and active policies aimed at reducing government deficits and debt accumulation, not mere announcements of targets without specific plans. The OECD survey was based on self-reporting by governments, that is, data reported by the

Table 2. Volume and composition of fiscal consolidation.

	Consolidation volume (% of GDP)	Expenditures reduction (% of total)	Operational measures (% of total)	Revenues increase (% of total)
Belgium	4.3	48.0	10.1	52.0
Estonia	2.6	0.0	0.0	100.0
France	4.2	59.0	30.0	41.0
Germany	3.0			
Hungary	8.2	87.0	40.0	13.0
Iceland	9.1	78.7	26.6	21.3
Ireland	17.9	66.0	6.0	34.0
Italy	6.1	49.0	6.5	51.0
Lithuania	5.5			
The Netherlands	2.9	93.4	38.8	6.6
Slovenia	6.0	100.0	48.9	0.0
Spain	7.3	66.6	21.4	33.4
The United Kingdom	7.1	77.0		23.0

Source: country profiles in OECD (2012).

Note: Lithuania is not an OECD member and therefore not included in the OECD survey. Nakrošis, Vilpišauskas, and Kuokštis (2015) reported that Lithuania had a fiscal consolidation plan of 5.5 % GDP in 2011. Figures conforming the OECD format are not available.

various governments in response to a questionnaire sent out to countries in December 2011 by the OECD Senior Budget Officials Group. The time horizon of fiscal consolidation plans in most countries was limited to 2015. The data were presented with a cumulative impact over the consolidation period (OECD 2012: 3).

We define the variable 'volume of fiscal consolidation' as the final accumulated consolidation in 2015. Virtually, all consolidation plans were back-loaded, that is, the measures were annually growing and the maximum consolidation efforts were planned for the later years. Estonia was the exception, where the consolidation plans were front-loaded, meaning that the maximum effort took place right at the outset of the crisis. Since 2009, Estonia gradually withdrew from consolidation (OECD 2012: 36). In the end, the 2015 accumulated volume of consolidation in Estonia was relatively low.

Besides the 'volume of fiscal consolidation', we also consider the composition of the fiscal adjustment measures, that is, the share of expenditures reduction (spending cuts) and the share of operational measures (cuts in the costs of administration) in the total consolidation (OECD 2012).

Electoral effects

Data about the electoral effects of the government's fiscal consolidation plans are derived from the COCOPS country case-studies (Kickert and Randma-Liiv 2015). The third column of Table 3 indicates whether the general elections were lost by the incumbent government. The fourth column denotes whether the general elections were early calls, while the fifth column indicates whether the call for early elections was related to the fiscal consolidation plans of the government. The sixth column indicates whether a coalition government was reduced to a parliamentary minority

Table 3. Electoral effects of fiscal consolidation.

	General elections	Incumbents lost election	Early elections	Related to cutbacks	Coalition turns to minority	Related to cutbacks
Belgium	2010	Yes	Yes	No	Yes	No
Estonia	2007	Yes	2009 no		2009 yes	Yes
	2011	No	No			
France	2007	Yes	No			
	2012	Yes	No			
Germany	2009	Yes	No			
Hungary	2010	Yes	No			
Iceland	2009	Yes	Yes	Yes	Yes	Yes
Ireland	2011	Yes	Yes	Yes		
Italy	2011	Yes	Yes	Yes		
Lithuania	2008	Yes	2009 no			
	2012	Yes	No			
The Netherlands	2010	Yes	Yes	Yes		
	2012	Yes	Yes	Yes	Yes	Yes
Slovenia	2008	Yes	No			
	2011	Yes	Yes	Yes		
Spain	2012	Yes	Yes	Yes		
The United Kingdom	2010	Yes	No			
Frequency counts		All but 1	8 out of 18	All but 1	4 times	3 times

Source: COCOPS country case-studies.

due to the withdrawal of one or more coalition parties, while the last column indicates whether that walk-out of parties from the coalition was related to the government's fiscal consolidation plans. The bottom row of the table presents the summary counts of the electoral effects.

Explanations of fiscal consolidation

Economic explanations

The first and foremost explanatory factor for the fiscal consolidation efforts that national governments took to manage the fiscal crisis is the fiscal and economic situation prior to and during the crisis. The worse the economic situation (GDP growth rate, unemployment, etc.) and the worse the fiscal situation (budget deficit, state debt, etc.), the more drastic measures had to be taken by governments.

Figure 1 confirms that the size of the fiscal consolidation plans was indeed related to the state of the public finances in previous years. The volume of fiscal consolidation is significantly correlated (explained variance of 83 per cent) to the average budget deficits in the preceding period (Eurostat), beginning in the year 2008 when the banking sector collapsed, the main trigger of the global financial-economic crisis. The correlation is hardly surprising as the main objective of the consolidation in most European countries was to bring the excessive deficit back to the EU ceiling of 3 per cent.

Political explanations

Political orientation of government (right-center-left)

The hypothesis that right-wing governments tend to take harder fiscal consolidation measures than left-wing governments is empirically refuted in our thirteen European countries (Figure 2). The left-wing government in Iceland and left-centre government in Ireland actually took drastic fiscal consolidation measures. The right-wing Hungarian government did take relatively hard measures, but the French did not. The main explanation why the left-wing governments in Spain, Iceland and Ireland did take large consolidation measures, contrary to the hypothesis, was their dependence on the International Monetary Fund (IMF), EU and European Central Bank loan programmes. Whatever

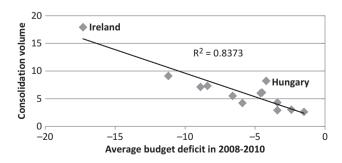


Figure 1. Consolidation volume – average budget deficit. Source: http://ec.europa.eu/eurostat/data and OECD (2012).

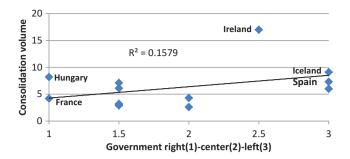


Figure 2. Consolidation volume – political orientation.

Source: World Bank (2012) and OECD (2012).

their political orientation, they had no choice but to carry out the prescribed and imposed budget cuts.

Strength of government

The assumption derived from the literature is that governments with a parliamentary minority are seriously hampered in taking bold action, while governments with a grand (two-thirds) majority are hardly hindered by political opposition. Figure 3 shows that the political assumption holds for the minority and grand majority cases. There is no correlation (R² is only 0.13) with the volume of fiscal consolidation for the normal winning majority (between 0.50 and 0.66) cases. Higher degrees of majority for that in-between range did not lead to higher consolidation measures.

The correlations between the volume of consolidation and the two indicators of political fragmentation (strength of government) – the number of parties in government and the Herfindahl index of government – only provide weak evidence. The volume of consolidation slightly (but insignificantly) drops with increasing number of coalition parties, and similarly with decreasing Herfindahl index. 'Weaker' governments seem to carry out less deficit consolidation, thus confirming earlier political economy findings.

Not only the size but also the composition of deficit reductions matters. The literature on political economy amply demonstrated that spending cuts are more

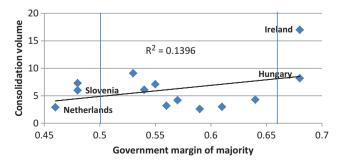


Figure 3. Consolidation volume – government margin of majority. Source: World Bank (2012) and OECD (2012).

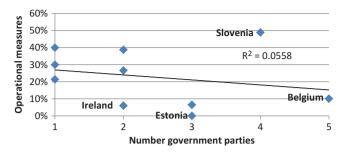


Figure 4. Operational measures – number government parties. Source: OECD (2012) and World Bank (2012).

likely to reduce deficits than tax increases, and that cuts in the costs of administration are less likely to harm economic growth. In our study, the correlations between the percentage of expenditure reductions as part of the total volume of consolidation, with the indicators of government strength, did not possess any significance. With an increasing number of coalition parties and decreasing Herfindahl index, the proportion of expenditure cuts seemed to slightly decrease, though insignificantly. The correlations between the proportion of operational measures and the indicators of government strength did yield similar results. The higher the number of parties and the lower the Herfindahl index (i.e. the 'weaker' the government), the lower (slightly and insignificantly) the proportion of operational measures (see Figure 4). It looks like 'weaker' governments are less inclined to cut in programme expenditures (in public policy sectors) and also less inclined to cut in the size and pay of the administration's workforce.

Figure 4 shows Slovenia on top (the Slovenian government's consolidation consisted completely of expenditure cuts, half of which were cuts in the administration's size and salaries) and Estonia at the bottom with no operational measures. Estonia front-loaded its consolidation, which initially included a significant share of administrative cuts, and later withdrew from consolidation (OECD 2012: 36).

Effects of fiscal consolidation

Fiscal and economic effects of consolidation

Budget deficit reduction

The following three figures relate the budget deficit reduction to the volume of consolidation (Figure 5) and to the composition of consolidation, that is, the percentage of expenditure cuts (Figure 6) and the percentage of operational cutbacks (Figure 7). As the worst budget deficit in most countries occurred in 2009, we measured the budget deficit reduction (surplus growth) since then. Because the volumes of consolidation measured by the OECD (2012) referred to plans which in most countries represented only the first consolidation round so that subsequent consolidation rounds (with increasing volumes) were not comprised, we took account of the budget deficit reduction until 2012 only (Eurostat data on budget surplus 2009–2012).

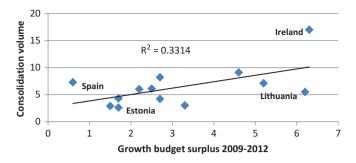


Figure 5. Consolidation volume – budget deficit reduction. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

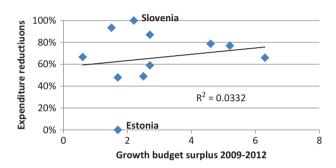


Figure 6. Expenditure reductions – budget deficit reduction. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

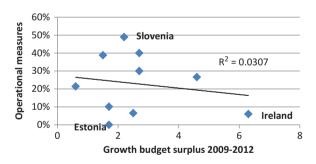


Figure 7. Operational measures – budget deficit reduction. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

The correlation between the volume of consolidation and the resulting decline of deficits is positive but not that significant (R² is 0.33). Figure 5 shows a paradox: both the country with a modest consolidation effort (Lithuania) and the one with the far highest effort (Ireland) achieved the highest reduction of budget deficit. However, the Lithuanian figure of fiscal consolidation effort is not derived from the OECD (2012) survey but from Nakrošis, Vilpišauskas, and Kuokštis (2015), and is therefore actually incomparable.

Figure 6 shows that the correlation between budget deficit reduction and the share of spending cuts in fiscal consolidation is only slightly positive and insignificant (R² is 0.03). This finding hardly supports the political economic argument that spending cuts are more likely to result in budget deficit reduction than in tax increases.

Figure 7 shows that the correlation between deficit reduction and operational cutbacks is slightly negative (with little significance, R2 is 0.03), which seems to contradict the political economic argument that reduction in public sector size and pay is beneficial for deficit reduction and economic growth.

Recovery of economic growth

The size and composition of consolidation are also related to the subsequent economic recovery, a relationship which is rather dubious from an economic perspective, especially for small countries with open economies. As the highest GDP decline in most countries occurred in 2009, we measured the GDP growth since then (Eurostat data on GDP growth 2009-2012).

The correlation between the volume of fiscal consolidation and economic recovery (see Figure 8) is not only insignificant (the explained variance is a mere 18 per cent) but, moreover, inverse. The higher the consolidation effort, the lower the economic recovery, thus supporting the criticism that 'fiscal austerity' in weak economies might harm economic recovery. The figure shows a paradox: the countries with the lowest consolidation effort (Estonia) and modest effort (Lithuania) reached the largest economic growth, and the one with the highest consolidation effort (Ireland) achieved hardly any growth.

The correlation between expenditure reductions and economic recovery is also inverse and moderately significant, as Figure 9 shows - contradicting the political economic argument that spending cuts are less likely to lead to economic recession than increases in tax revenue.

The correlation between operational cutbacks and economic growth is negative though hardly significant (see Figure 10). The political economic argument that reduction of government's size and pay as part of deficit consolidation is less likely to result in economic recession is contradicted.

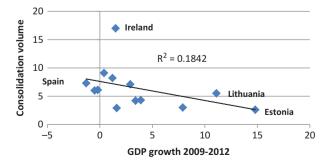


Figure 8. Consolidation volume – economic recovery. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

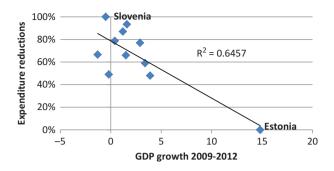


Figure 9. Expenditure reductions – economic recovery. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

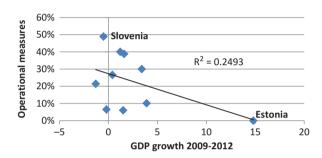


Figure 10. Operational measures – economic recovery. Source: OECD (2012) and http://ec.europa.eu/eurostat/data

Political-electoral effects of consolidation

Electoral effects

The findings in political economy about positive electoral effects of tight fiscal consolidation are unmistakably refuted in our study of thirteen European countries (see the summary counts in Table 3).

General elections in all but one case (Estonia in 2011) resulted in a defeat of the incumbent government which had taken steps towards fiscal consolidation. It is doubtful in some cases whether the economic and fiscal crisis and, particularly, the fiscal consolidation efforts of the government were the main causes for the electoral loss. The 2007 general elections in Estonia took place before the financial banking crisis broke out, and the governments that were newly elected in 2008 in Lithuania and Slovenia were confronted with the very beginning of the financial crisis. The 2010 elections in Belgium were dominated by the Flanders-Wallonia controversy, and solving the fiscal crisis was not the foremost priority in the eighteen months of coalition formation.

In the eight cases where governments had to call early elections, only the Belgian case was not related to the fiscal crisis. The complex and unstable Belgian political system regularly results in the fall of governments and early elections. Although Belgium in 2010 was confronted with a severe fiscal crisis, that was not the politically hot issue for the coalition to break up.

In four countries, the government faced one or more parties leaving the coalition, which therefore fell back to a parliamentary minority. In Belgium that was not related to cutbacks, but in all other cases it was. When the Estonian coalition turned into minority government in 2009, it did not call early elections. In all other cases, governments did. In Estonia, the centre-right minority coalition was not ousted (the only case out of seventeen) but actually gained a majority at the 2011 general elections.

Despite the exceptions, we can plausibly conclude from these data that the electoral effects of governments' fiscal consolidation decisions were indeed significant and highly negative for incumbents. This is in plain contrast with the political economic findings that fiscally conservative incumbents are not punished off at elections.

Conclusions and discussion

Conclusions

Based on the political economy literature about fiscal deficits and consolidation, and its findings about the influence of types of government on budget deficit stabilization, a number of variables were selected representing 'strength of government' and 'political orientation of government'. Based on the political economic findings on deficit stabilization, we also distinguished 'spending cuts' and 'cuts in administration', and tested whether these subcategories of fiscal consolidation correlated with political factors. In line with earlier political economic findings of weak evidence, it was refuted that rightwing governments tend to take harder consolidation measures than left-wing governments. Political colour does not matter. The 'strength' of government also hardly correlated with size of consolidation. Margin of parliamentary majority, number of government parties and Herfindahl index did not significantly correlate with consolidation. The share of spending cuts in consolidation negatively correlated with the 'strength of government' indicators, as did the share of cuts in administration, though insignificantly both. 'Weaker' governments seem less inclined to cut expenditures and the size and pay of the administration's workforce.

The statistical analysis of effects of consolidation set out with the fiscal and economic effects. The correlation between consolidation and subsequent deficit reduction was positive but hardly significant. The correlation between spending cuts and fiscal effects was positive but insignificant, though the fiscal effect of cuts in administration was negative. The political economy argument that spending cuts are more likely to reduce deficits than tax rises, and that cuts in government size and pay do likewise, was not supported. The recovery of economic growth was negatively correlated with consolidation size, and negatively with the share of spending cuts in consolidation, therefore supporting the criticism that 'fiscal austerity' might harm ailing economies. The political economy argument that cuts in size and pay of administration are likely to prevent economic recession was refuted.

The analysis of the political effects of fiscal consolidation yielded far more significant results than the fiscal and economic effects. The electoral effects of the governments' consolidation efforts turned out to be highly punishing. Incumbents were in all-but-one cases ousted in general elections because of their consolidation efforts. In more than half of the cases, governments had to call early elections. In several cases, coalition governments lost their parliamentary majority due to consolidation plans.

Altogether, the politics barely seemed to be significant in explaining for size and composition of fiscal consolidation (also see Appendix 1). However, the political-electoral effects of consolidation were highly significant and in contrast with political economic findings arguing that tight fiscal policy has positive electoral effects. Notice though that our sample consists of a mere thirteen countries and that the circumstances were quite exceptional - that is, a worldwide banking crisis and great economic recession.

Fiscal austerity

A salient political aspect of fiscal consolidation is the question whether harsh fiscal consolidation - 'fiscal austerity' - in times of an economic recession is the right thing to do. The fervent condemnations by the Nobel Prize-winner Paul Krugman are well known. The basic argument is that a weak economy will be further harmed by deficit reductions and that economic growth is a good cure against deficits, so one had better go for stimulating economic growth instead of cutbacks. Unfortunately, this debate is often largely political-ideological with debaters presuming to possess the moral right to condemn or justify fiscal consolidation. In the discussion platform 'voxEU', the danger of fiscal austerity leading to another economic recession was frequently discussed by European economists (Corsetti 2012; De Grauwe 2013; Gros 2011) and top-officials of the IMF (Cottarelli 2012) and the EU (Buti 2014). The EU's Directorate-General of Economic and Financial Affairs has defended itself against accusations and explained its delicate balancing act (Buti and Carnot 2013). The normative question of success or failure of consolidation is not only an ideological but also a methodological minefield.

Quantitative and qualitative

Did politics matter in fiscal consolidation? Our qualitative country case-studies provide an unquestionable 'yes' as answer. (Kickert and Randma-Liiv 2015). The abundant wealth of interesting and relevant political facts of the in-depth country case-studies were quite convincing. The methodological problem, however, is that the uniqueness of countryspecific details does not allow for international comparative generalization. This is why we went for a quantitative statistical analysis. Unfortunately, our first attempt to derive quantitative data from the thirteen case-studies only generated indistinct and hardly informative statistics. The well-known disadvantage of the qualitative case-study method, was confirmed. For a quantitative statistical analysis, we had to find well-defined and quantitatively measurable variables elsewhere, that is, in the political economy literature. The question whether politics mattered in fiscal consolidation, which was most certainly answered affirmatively with qualitative case-studies, appeared harder to answer with empirically and methodologically sound statistics based on generalized theory.

Public management

Now what did this statistical analysis of fiscal consolidation mean for public management? 'Fiscal consolidation' is the somewhat euphemistic term that economists use for spending cuts and tax increases. In our field of public management and administration, that activity was used to be called 'cutback management' in the 1980s. Actually, we derived parts of our analytical framework from the literature on cutback management at

that time (Raudla, Savi, and Randma-Liiv 2015). It seems no exaggeration to state that the management of the global financial-economic crisis and subsequent fiscal crisis represent one of the most important challenges for public management today. To study how governments manage their fiscal crisis is a matter not only of economics but also of politics and administration. Investigating the size and speed of the government's fiscal decision-making, and whether the decision-making was incremental and across-theboard rather than targeted and political priority-setting, is also part of that.

Fortunately, there are signs that the hard times of cutbacks and retrenchments are over, and Western economies crept out of recession and are starting to recover. Though we do not want to make a pessimistic impression, we do remind that the previous worldwide crises of the 1970s and 1980s were not over in a couple of years. European governments might well be facing a longer succession of cutback rounds, which, by the way, will sooner or later force governments to no longer escape their responsibilities and make fundamental political priorities about public services. Instead of the current common practice of muddling through with incremental across-the-board measures, which apparently is what most European governments are good at (Kickert and Randma-Liiv 2015).

Another comparison with the previous global crises in the 1970s and 1980s also seems relevant. The oil crisis in the 1970s that led to a worldwide economic recession, was followed by a fiscal crisis of excessive deficits and debts, forcing Western governments to severe cutbacks that dominated Western societies for most part of the 1980s. Western welfare states became unaffordable. States withdrew from many societal policy sectors, resulting in the stagnation, retreating and even end of the welfare state. The main focus was on retrenchments and cutbacks, on managing the fiscal crisis. And ultimately, the crisis of the 1980s had a major effect on states and administrations. A common dominant reform trend emerged all over the Western world, the so-called 'New Public Management'. Now what will be the impact of the current fiscal crisis and cutbacks on states and administrations of today? What will be the impact on reforms in public administration and management?

Recently, Di Mascio and Natalini (2015) addressed that very question for Southern European countries. The COCOPS country case-studies we mentioned before have also addressed this question of the crisis' impact on reform, soon leading to publications (Randma-Liiv and Kickert forthcoming).

Acknowledgements

The authors are grateful to Piret Tonurist for his help with the quantitative analysis.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

The research leading to these results has received funding from the European Union's Seventh Framework Program under grant agreement no. 266887 (Project COCOPS), Socio-economic Sciences & Humanities and the Estonian Science Foundation grant no. 9435.



Notes on contributors

Walter Kickert is professor of Public Management at Erasmus University Rotterdam. His research interests are administrative reform and public management, with emphasis on international comparison. He is currently involved in an international study of how states managed the fiscal crisis.

Tiina Randma-Liiv is professor and Chair of Public Management and Policy at TUT, currently on leave as a Fulbright Visiting professor at Florida International University. She holds a BA in Economics from the University of Tartu, Estonia, an MPA from New York University and a PhD in Public Administration from Loughborough University, Great Britain. She has been a member of the Academic Council of the President of Estonia (Committee of the Development of Local Governments) and of the Prime Minister's Advisory Board on Administrative Reform. Her main research interests include civil service reform, performance management, policy transfer, NGOs and small state administration.

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Appendix 1. Pearson's correlations.

	Average budget deficit	Political orientation	Government margin of majority	Budget deficit reduction	Economic recovery	Number of parties
Consolidation	-0.9150***	0.3733	0.3878	0.5771*	-0.4146	
volume	(0.0000)	(0.2090)	(0.1904)	(0.0389)	(0.1590)	
	13	13	13	13	13	
Operational				-0.1752	-0.4195	-0.4993
measures				(0.6282)	(0.2274)	(0.1418)
				10	10	10
Expenditure				0.1825	-0.8036**	
reductions				(0.5912)	(0.0029)	
				11	11	